

Message Text

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INFO OCT-01 EA-11 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 NSC-07 FEA-02 SS-20 DRC-01 /168 W

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R 101858Z JUL 74

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INFO AMEMBASSY BERN

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DEPT PASS TREAS FOR CROSS AND FRB FOR PARTEE

E.O.11652: N/A

TAGS: EFIN, OECD

SUBJECT: RESTRICTED MEETING BETWEEN BANKERS AND MEMBERS
OECD COMMITTEE ON FINANCIAL MARKETS (CFM)

REF: USOECD 5918

1. SUMMARY. INFORMAL RESTRICTED MEETING JULY 3 BETWEEN
BANKERS AND CERTAIN MEMBERS CFM REVEALED BANKERS
GENERALLY (A) DOUBTFUL PRIVATE MARKET ABLE EFFECTIVELY
TO RECYCLE OPEC OIL REVENUES, (B) GLOOMY ABOUT WORLD
ECONOMIC TRENDS, AND (C) ANXIOUSLY LOOKING TO GOVERN-
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MENTS AND CENTRAL BANKS FOR SUPPORT AND SENSE OF

DIRECTION. OFFICIALS AND OECD SECRETARIAT MORE OPTIMISTIC INDICATING MARKET HAS WORKED WELL THUS FAR, THAT ADAPTATIONS INCLUDING INCREASED PRUDENCE SHOWN BY PRIVATE INSTITUTIONS ARE HEALTHY AND THAT AUTHORITIES NOT UNMINDFUL OF NATURAL LIMITS TO MARKET'S CAPACITY RECYCLE FUNDS TO THOSE BORROWERS STRAINING CRITERIA OF CREDITWORTHINESS. MEETING DID NOT SHED MUCH NEW LIGHT ON OPEC INVESTMENT STRATEGY. PARTICIPANTS SEE SOME EVIDENCE WILLINGNESS OPEC INVESTORS TO PLACE FUNDS IN LONGER-TERM INSTRUMENTS, BUT ALSO FORESEE MORE OF THIS BEING DONE DIRECTLY RATHER THAN THROUGH INTERMEDIATION OF BANKING SYSTEM. END SUMMARY.

2. CFM MEMBERS FROM U.S., BELGIUM, FRANCE, NETHERLANDS, GERMANY, JAPAN, SWITZERLAND, U.K., AND IBRD OBSERVER, HELD INFORMAL MEETING JULY 3 AT OECD WITH BANKERS INCLUDING DRESDBERGER BANK (RICHEBACHER), LAZARD, PARIS (GUYOT), MORGAN & CIE, PARIS (VILLECHAISE), NOMURA, LONDON (KAGAMI), AMSTERDAM ROTTERDAM BANK (HOOGENDYK), S.G. WARBURG, LONDON (GORDON) AND CREDIT SWISSE (MAST). MAIN INTEREST CENTERED ON EUROMARKET DEVELOPMENTS, ABILITY OF MARKET TO RECYCLE OPEC OIL REVENUES AND EFFECT OF RECYCLING PROCESS ON WORLD'S ECONOMIC AND FINANCIAL ENVIRONMENT.

3. BANKERS CONFIRMED REPORTS THAT EURO-BANKS BECOMING MORE RESISTENT TO ACCEPTING SHORT-TERM DEPOSITS ON LIABILITIES SIDE AND MORE CAREFUL IN ANALYZING LENDING RISKS ON ASSET SIDE. THUS SEE FRAGMENTATION OF MARKET WITH GREATER SPREADS IN TERMS LOWER INTEREST RATES BEING PAID TO LARGE DEPOSITS AT SHORT-TERM AND HIGHER INTEREST RATES CHARGED TO BORROWERS AS THEIR EXPOSURE AND RISK QUOTIENT GROWS. BANKERS PERCEIVE SOME SHIFTING OF INTEREST OF OPEC COUNTRIES FROM EURO-BANKS TO U.S. MARKET AND FROM BANK DEPOSITS INTO U.S. TREASURY BILLS. ON THE WHOLE, BANKERS RELATIVELY PESSIMISTIC ABOUT ABILITY PRIVATE MARKET TO COPE WITH RECYCLING PROBLEM DUE MAINLY TO CREDITWORTHINESS LIMITS OF BORROWERS AND PARTLY TO STRAINS ON CAPITAL/LIABILITIES RATIOS. AT EXTREME, SOME BANKERS (RICHEBACHER) DREW PARALLELS LIMITED OFFICIAL USE

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BETWEEN CURRENT TRENDS AND HISTORICAL CRISIS SITUATIONS SUCH AS GERMAN REPARATIONS TRANSFER PROBLEM AND COLLAPSE OVEREXTENDED INTERNATIONAL INTER-BANK DEPOSIT LINKAGES IN EARLY 1930'S. VIRTUALLY ALL BANKERS LOOKED TO GOVERNMENTS AND CENTRAL BANKS FOR ACTION (UNSPECIFIED) TO SUPPORT PRIVATE MARKET AND INSURE SUCCESS OF RECYCLING OBJECTIVES. OF INTEREST, HOWEVER, THAT BANKERS' CONCERN SEEMED FOCUSED ON LIMITATIONS ON WHAT COULD BE

EXPECTED OF MARKET, RATHER THAN ON PROBLEMS OF INDIVIDUAL BANKS. IN FACT, RECENT TROUBLES OF INSTITUTIONS SUCH AS FRANKLIN NATIONAL AND HERSTATT NOT MENTIONED.

4. IN CONTRAST, MEMBERS CFM AND OECD SECRETARIAT SHOWED MODERATE OPTIMISM. BANK OF ENGLAND, IBRD (ROTBURG), SECRETARIAT AND U.S. (KORP) REPS, NOTED MARKETS HAVE WORKED WELL AND THAT ADAPTATIONS E.G. RESISTANCE TO SHORT-TERM DEPOSITS AND PRUDENCE IN LENDING WERE SALUTARY DEVELOPMENTS AND SHOULD HAVE HELPFUL

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EFFECTS FOR EXAMPLE IN INDUCING OPEC COUNTRIES TO CONSIDER LONGER-TERM INVESTMENTS. FROM VIEWPOINT AGGREGATE ANALYSIS DANGERS OF EXPANSION IN EUROMARKET CAN BE EXAGGERATED. SECRETARIAT (HACKETT) STATED ANALOGY TO GERMAN REPARATIONS FALSE SINCE CURRENT SITUATION IS ONE OF INABILITY OPEC CREDITOR COUNTRIES ABSORB REAL RESOURCES WHILE GERMAN CASE INVOLVED INABILITY DEBTOR EFFECTIVELY TO TRANSFER REAL RESOURCES. BANK OF ENGLAND (EDGELEY) ARGUED THAT EURO-MARKET DID HAVE SUPPORT OF LENDERS OF LAST RESORT ALTHOUGH IN CASE OF PROBLEM SITUATION THERE IS NOT CLEAR AGREEMENT ON RESPECTIVE RESPONSIBILITIES OF CENTRAL BANK AND LIMITED OFFICIAL USE

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TRAL BANKS HAVING JURISDICTION OVER (A) MARKET IN WHICH BANK OPERATING, (B) HEAD OFFICE OF BANK IN QUESTION, AND (C) CURRENCY IN WHICH TRANSACTIONS DENOMINATED. EDGELEY SUGGESTED THAT WHILE RESPONSIBILITIES MIGHT VARY FROM CASE TO CASE, IN GENERAL ONE MIGHT LOOK FIRST TO CENTRAL BANK OF HEAD OFFICE, SECOND TO NATIONAL MARKET AND THIRD TO CURRENCY (PRESUMABLY WHEN SERIOUS TRANSFER PROBLEM INVOLVED).

5. MORE SPECIFIC CONCLUSIONS OF DISCUSSION CAN BE SUMMARIZED AS FOLLOWS:

- A. DURING FIRST HALF 1974, PRIVATE MARKET HAS PERFORMED WELL IN RECYCLING OPEC INCOME. HOWEVER, CREDITWORTHINESS OF BORROWERS AS LIMITING FACTOR BECOMING MORE EVIDENT AND HAS APPEARED SOONER THAN ORIGINALLY EXPECTED.
- B. CURRENT STRAINS ON EURO-MARKET AND CONSEQUENTLY MORE CAUTIOUS ATTITUDE OF BANKS ON BOTH ASSET AND LIABILITIES SIDE MAKES IT LIKELY THAT EURO-MARKET WILL BE EXPANDING AT SLOWER RATE IN NEXT SIX MONTHS AND WILL BE MORE FRAGMENTED (SELECTIVE). LESS CREDITWORTHY BORROWERS WILL FIND SPREADS INCREASING AND MATURITIES SHORTENING.
- C. OPEC COUNTRIES IN SECOND HALF 1974 ARE LIKELY TO MAKE SOME RELATIVE SHIFT IN PLACING OF FUNDS FROM EURO-MARKET TO U.S. MARKET AS WELL AS INTO LONG-TERM INVESTMENT ARRANGED DIRECTLY WITH ULTIMATE BORROWERS, THUS BY-PASSING BANKING SYSTEM. BANKS STRUGGLING WITH PROBLEM OF THEIR CAPITAL BASE MAY SHOW INCREASING INTEREST IN SUCH BROKERAGE ACTIVITIES (WHICH MIGHT YIELD THEM A COMMISSION, BUT NOT INFLUENCE THEIR

BALANCE SHEETS).

D. THERE IS EXPECTATION THAT GOVERNMENTS AND
OFFICIAL INTERNATIONAL INSTITUTIONS WILL IN
COMING MONTHS PLAY LARGER ROLE IN RECYCLING
PROCESS, BOTH BY SUPPORTING COUNTRIES WHICH
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PRIVATE MARKET JUDGES UNCREDITWORTHY AND THROUGH
BILATERAL ARRANGEMENTS NEGOTIATED BETWEEN OIL
PRODUCING AND OIL CONSUMING COUNTRIES.
BROWN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, ECONOMIC CONDITIONS, FINANCIAL MARKETS, COMMITTEE MEETINGS, BANKS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 10 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974OECDP16821
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740184-0062
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740761/aaaacajk.tel
Line Count: 239
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: USOECD 5918
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 03 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 APR 2002 by worrelsw>; APPROVED <19 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RESTRICTED MEETING BETWEEN BANKERS AND MEMBERS OECD COMMITTEE ON FINANCIAL MARKETS (CFM)
TAGS: EFIN, OECD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005